

# UTILITY COMMITTEE MINUTES

June 20, 2005

The Utility Committee of the City of Mesa met in the lower level meeting room of the Council Chambers, 57 East 1st Street, on June 20, 2005 at 2:32 p.m.

**COMMITTEE PRESENT**

Janie Thom, Chairman  
Rex Griswold  
Tom Rawles

**COMMITTEE ABSENT**

None

**STAFF PRESENT**

Paul Wenbert

1. Discuss and consider providing sewer service to a portion of the General Motors Desert Proving Grounds property.

Deputy Building Safety Director Jeff Welker advised that the General Motors Corporation (GM), operator of the Desert Proving Grounds (DPG) in southeast Mesa, is requesting that the City of Mesa provide wastewater service in order to replace the existing septic tank systems. He stated that the GM facility has been a City water customer since 1986.

Mr. Welker explained that the public wastewater mainline would extend across the DPG property from Ellsworth Road to Mountain Road and run parallel to the current Ray Road alignment. He advised that this mainline extension would enable the City to provide public wastewater service to the developing properties east of the DPG site. Mr. Welker noted that the extension across the DPG property would be the most economical approach, and he added that the Ray Road alignment is consistent with Mesa's Master Wastewater Plan.

Mr. Welker stated that although providing utilities outside Mesa's corporate limits requires annexation of the property into the City, the City Council does have the authority to grant an exemption from this requirement. He advised that GM does not wish to be annexed into the City of Mesa at this time, and that staff has prepared two options for consideration:

**Option No. 1:** In lieu of annexation, require GM to enter into a development agreement with the City of Mesa that authorizes their connection to the City's public wastewater system to serve only those buildings/facilities that currently exist on the DPG property.

**Option No. 2:** As a condition of connecting to Mesa's public wastewater system, require the annexation of approximately 127 acres of GM property that encompasses the existing DPG facilities for which GM desires to receive wastewater service.

In response to questions from Committeemember Griswold, Mr. Welker estimated the total size of the GM property to be approximately 5,000 acres, and said that GM has expressed a preference for Option No. 1.

Chairman Thom requested that the GM representative in the audience come forward to address the Committee.

Stephen D. Chucri, President of Chucri Consulting, addressed the Committee on behalf of General Motors. He advised that GM, as part of their decision to retain this location as a testing facility, assessed the future needs of the Proving Grounds. Mr. Chucri noted that obtaining City wastewater services is the most feasible approach for GM, and that granting the City a right-of-way across the GM property also enables the City to provide wastewater services to residential development located east of the Proving Grounds.

Responding to a question from Committeemember Rawles, Mr. Chucri confirmed that GM would provide the easement at no cost to the City.

Discussion ensued relative to the fact that the developers of the residential properties to the east would pay for the infrastructure and build the sewer lines across the GM property; that GM would pay the City approximately \$100,000 in impact fees; and that Option No. 1 represents a \$1.2 million savings to the City of Mesa.

Committeemember Rawles expressed support for Option No. 1 on the condition that GM is committed to limiting their use of wastewater facilities to their current need for service. He noted that the City already provides GM with other services such as water and fire protection.

In response to Chairman Thom's questions regarding the lift stations, Mr. Welker outlined the differences between the two scenarios. He stated that under Option No. 1 for the preferred Ray Road alignment, the residential developers to the east of the Proving Grounds would construct their own internal sewer system which would "gravity flow" across the Proving Grounds to a lift station at the Ray Road alignment with Ellsworth Road where it would connect to an existing, pressurized mainline. Mr. Welker added that the new lift station would be constructed by the developer and then turned over to the City. He explained that when the gravity line to the west of Ellsworth Road is constructed, the lift station would be eliminated.

Mr. Welker stated that if the Ray Road alignment is not utilized, the developers would be required to construct their wastewater system with a small lift station located on the west side of the property that would lift the wastewater to Mountain Road where it would "gravity flow" to Pecos Road, and then west on Pecos to the existing lift station at Pecos and Ellsworth Roads where it would be routed into the existing pressurized main. He noted that as a result of the additional volume, the City could be required to construct a re-pressurizing station at Ellsworth and Elliot Roads at a cost of approximately \$1.2 million. Mr. Welker added that if the existing gravity system mainline reaches Elliot and Ellsworth Roads before development east of the Proving Grounds occurs, the station at Ellsworth and Elliot Roads would not be necessary. He confirmed that the gravity system would be utilized when the new wastewater plant in Gilbert is operational in the fall of 2006.

It was moved by Committeemember Rawles, seconded by Committeemember Griswold, to recommend to the Council that staff's proposal for Option No. 1 be approved.

Carried unanimously.

Chairman Thom thanked staff for the presentation.

2. Discuss and consider a change in the drought management status.

Utilities Manager Dave Plumb advised that the Salt River reservoirs are presently at 93 percent capacity system-wide as a result of the spring rainfall, and he stated that Water Resources Coordinator Kathryn Sorensen was present to provide information regarding the status of the Stage 1 drought alert.

Ms. Sorensen reported that the Salt River and Verde River systems have almost completely recovered, and that the Salt River Project (SRP) has rescinded its surface water allocation cutbacks. She advised that Mesa's allocation of three acre-feet per acre has been restored, which ensures a sufficient supply of water for the City. Ms. Sorensen explained that when SRP cut back on Mesa's surface water allocation, Mesa replaced that water with a groundwater allocation. She noted that because of the location of the Val Vista Water Treatment Plant on the SRP canal system, the water that was actually delivered was surface water even though on paper the water was designated as groundwater. She stated that the City of Mesa survived the drought situation with minimal impact on the City's infrastructure or pricing. Ms. Sorensen also reported on the activities of the City's Drought Management Team. She added that even if a drought period reoccurs in the next five years, SRP has stated that they do not anticipate the necessity for surface water allocation cutbacks. Ms. Sorensen further stated that staff recommends that the Council rescind the City of Mesa's Stage 1 drought alert.

Chairman Thom noted that the Central Arizona Project (CAP) provides a substantial amount of Mesa's water, and she questioned the impact of the recent sale of Arizona CAP water to the Central Nevada Water Authority. She expressed concern regarding the status of Mesa's future water supply.

Mr. Sorensen advised that the reclaimed water exchange recently negotiated with the Gila River Indian Community provides four acre-feet of CAP water to the City of Mesa in exchange for five acre-feet of reclaimed water. She noted that this agreement provides the City of Mesa with a priority status for receipt of approximately 23,000 acre-feet of CAP water, and that the Indian Community receives 20 percent more water than their original CAP allocation. Ms. Sorensen explained that the Nevada agreement provides for the sale of a maximum of approximately 1.2 to 1.3 million acre-feet of water over a period of years in exchange for a payment of \$350 million, and that Arizona communities are protected by the fact that they have priority access to the water before it is sold to Nevada. She explained that the agreement benefits Arizona because the State will receive payments from Nevada for a CAP water allocation that Arizona is currently unable to use. Ms. Sorensen added that it is unlikely that Arizona would be able to utilize its full CAP allocation in the next few years, and therefore the Nevada agreement is very favorable for the State of Arizona.

Chairman Thom stated the opinion that Arizona would not have sufficient water to meet the demands of future growth as a result of selling the CAP allocation to the State of Nevada. She also expressed the opinion that additional lakes should be built to replace the sold water, and she noted that some plans presently exist to build dams on the Verde River.

Ms. Sorensen stated that the City of Mesa's best protection against drought is to ensure the continued capacity of the City's wells. She noted that in the event all other systems fail, the City must be able to obtain groundwater.

In response to a comment by Chairman Thom that groundwater was the most expensive alternative, Ms. Sorensen noted that in the future, the City of Mesa would rely more heavily on groundwater due to the fact that a large amount of water has been banked in the past. She added that the Water Master Plan indicates that recovered long-term storage credits will account for 20 to 30 percent of Mesa's future normal water use. Ms. Sorensen also noted that future wells would be more efficient and cost effective.

In response to a question from Committeemember Rawles, Ms. Sorensen clarified that Arizona stores the water and when the State of Nevada requires a portion of the CAP allocation, Nevada will pump water from the river, which will be replenished by water pumped from Arizona wells. She confirmed that when Nevada has pumped the 1.2 to 1.3 million acre-feet of water, the agreement will terminate. She noted that the southwest basin states, Arizona, Nevada and California, would continue to work together to address drought and water issues.

Discussion ensued relative to the fact that Nevada would utilize at least 40,000 acre-feet of water this year; that the agreement could continue for as long as 30 years; and that Nevada would receive only excess water after the needs of the State of Arizona are met.

Committeemember Rawles noted that when the City of Mesa declared a Stage 1 drought alert, there was no real danger of the City failing to meet the demand for water.

Mr. Plumb advised that because Mesa had approximately 350,000 stored groundwater credits, the City did not view the drought situation in the same manner as many other Valley cities. He noted the City is presently receiving a full allocation of water from SRP.

Committeemember Rawles stated that the Stage 1 alert, which was declared prior to his election to office, referred to a surface water shortage rather than a surface water cutback. He noted that he would not have supported issuing the alert, but he expressed concern that removing the alert at this time sends an incorrect message to the public regarding the status of water issues.

Ms. Sorensen advised that staff debated between two alternatives: 1) Retain the Stage 1 alert, which may not be significant, and could result in the public perception that the City's drought declarations are meaningless, or 2) Rescind the Stage 1 alert and then determine that the recent rainfall constituted an anomalous wet year. Ms. Sorensen explained that her recommendation is to rescind the Stage 1 alert because the City of Mesa is able to meet customer demand for many years in the future even if the precipitation over the past year proves to be an anomaly. She confirmed that the original declaration of the Stage 1 alert was, in part, a response to media coverage of the drought situation, and she added that the overall goal was to prevent the City from moving into a Stage 2 alert. Ms. Sorensen reported that several Valley communities have rescinded the Stage 1 alert status, and she added that Mesa has the successful, award winning "Water – Use it Wisely" Program which focuses on conservation.

Committeemember Griswold noted that the success of the water conservation program resulted in reduced water revenues.

It was moved by Committeemember Griswold, seconded by Committeemember Rawles, to recommend to the Council that the City of Mesa's Stage 1 drought alert be rescinded.

Chairman Thom expressed opposition to rescinding the Stage 1 alert. She stated the opinion that the action would be premature because normal rainfall may not occur in the future, and she suggested that the Council delay action on the drought status until the fall.

Committeemember Rawles explained that the parameters of a Stage 1 alert are not technically applicable to the City's current status.

Committeemember Griswold suggested that an effective approach for the City may be to rescind the Stage 1 alert at this time and, if the area experiences a dry summer, a different type of water conservation alert could be issued in order to generate media attention and public awareness.

Mr. Plumb noted that the "Water – Use It Wisely" campaign is a continuous and effective public awareness effort.

Chairman Thom called for the vote.

Upon tabulation of votes, it showed:

AYES - Griswold-Rawles  
NAYS - Thom

Chairman Thom declared the motion carried by majority vote.

Chairman Thom thanked staff for the presentation.

3. Hear a status report on various natural gas utility issues including the rebate program, growth in the Magma area and commodity contracts.

Resources Division Director Frank McRae distributed printed copies of his presentation to the Committee (a copy is available for review in the City Clerk's Office).

Mr. McRae reported that the natural gas supply situation in the past year has been extremely volatile. He stated that seven firms responded to the City's Request for Proposals (RFP), which solicited different types of services and products. Mr. McRae noted that the RFP addressed two options for bundled services (bundled services include El Paso Natural Gas [EPNG] pipeline transportation management services and delivery to the Phoenix metropolitan area, and purchasing and packaging gas from a number of suppliers in a manner that meets the City's standards) and two options for unbundled services (unbundled services enable more than one party to provide one or more services, and more than one person interacts with the provider of gas transportation management service). He advised that the following factors are considered when obtaining services and supplies:

- Associated services on an un-bundled basis are more expensive than on a bundled basis.

- The Utilities Department could perform associated services and acquire natural gas supplies, but City staff is unable to accommodate the workload which would require coverage on a 24 hours a day, 7 days a week basis, and without that level of coverage, the City would risk incurring substantial financial penalties.
- Suppliers are able to perform associated services at a lower cost.

Mr. McRae stated that an agreement has been executed with Coral for the provision of bundled services through next winter, but he added that in the future, Coral would compete in a bid process with nine other companies that have qualified as potential providers.

Mr. McRae reported that changes in the fundamentals of natural gas markets have resulted in rapid price increases. He added that the market is somewhat “dysfunctional” because prices remain at the same level when changes in fundamentals occur that should lower prices. Mr. McRae reviewed the history of price increases, the projected 2006 increases, and factors that impact current market conditions, some of which are as follows: increased demand; poor hydro conditions in the Pacific Northwest; above normal temperatures in the West; increased demand in California as a result of the improved economy; and reduced production in the Gulf of Mexico due to the impact of the 2004 hurricane season on offshore wells.

Mr. McRae said that although natural gas storage is at a five-year high, there has been little impact on pricing. He advised that the City received a greater pricing discount by agreeing to a floor price of \$5. Mr. McRae noted that since the City entered into the agreement, the price has been above \$5, and he stated the opinion that it is unlikely that the floor price will fall below \$5 during the next twelve months.

In response to a question from Committeemember Rawles regarding the length of the agreement, Mr. McRae advised that there are presently three agreements with these types of “mechanisms” in place with specified time periods:

- A “summer” agreement with Coral for the period of May through October.
- A “winter” agreement with Coral for the period of November through March.
- A “winter” agreement with National Fuels for the period of November through March.

Mr. McRae advised that staff has been reluctant to enter into long-term agreements because of the potential risk.

Committeemember Rawles expressed concurrence with staff’s decision to enter into short-term agreements.

Responding to a question from Committeemember Griswold, Mr. McRae advised that Southwest Gas Corporation has a fuel cost-recovery mechanism administered by the Arizona Corporation Commission. He noted that the City of Mesa operates at a very competitive level with Southwest Gas.

Mr. McRae stated that in view of the Enron situation, staff considers financial stability to be an important factor in determining which firms are pre-qualified as providers.

Addressing the topic of "Marketing of Natural Gas," Mr. McRae advised that the two target customer groups are commercial and residential. He stated that the primary marketing activity targets residential development, and that the efforts include print advertising in real estate publications and incentives to builders.

In response to a question from Committeemember Rawles, Mr. Plumb advised that the "Magma" area consists of 240 square miles south of Queen Creek. He stated that in 1980 the City of Mesa purchased the Magma Gas System, which was privately owned and operated, and served 165 customers. Mr. Plumb noted that recent building activity in the area would generate significant increases in the number of Magma system customers.

Mr. Plumb advised that "cost of service" studies have been completed for water and wastewater, and said that a study is planned to address the "cost of service" for natural gas.

Responding to a comment from Committeemember Griswold, Mr. Plumb stated that the costs of reading meters and servicing the outlying areas are being addressed by leasing space in the new Magma Irrigation District headquarters building, which is located in the geographic center of the developed area, and that a number of City employees are based at that location.

Mr. McRae reported that approximately 2,200 Magma natural gas customers are being added each year. He advised that commercial customers generate significantly higher revenues (\$2,200 per year/per customer) than residential customers (\$240 per year/per customer), and therefore commercial utilization of natural gas is encouraged. He stated that future consideration should also be given regarding whether the revenues generated by providing natural gas service to a new residential area are justified by the cost incurred to provide the infrastructure. Mr. McRae also noted that the loss of a large, commercial customer, such as Motorola, has a major impact on revenues.

Chairman Thom thanked staff for the presentation.

4. Adjournment.

Without objection, the Utility Committee Meeting adjourned at 3:54 p.m.

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the Utility Committee meeting of the City of Mesa, Arizona, held on the 20<sup>th</sup> day of June 2005. I further certify that the meeting was duly called and held and that a quorum was present.

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BARBARA JONES, CITY CLERK